

Message Text

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ORIGIN TRSE-00

INFO OCT-01 EA-07 ISO-00 SP-02 USIA-06 AID-05 EB-08
NSC-05 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00
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FM SECSTATE WASHDC
TO AMEMBASSY TOKYO

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E.O. 11652:N/A

TAGS:EAID, EFIN

SUBJECT: STATUS OF IDA LEGISLATION IN THE CONGRESS

PLEASE PASS MCCAMEY

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AUTHORIZING LEGISLATION

1. BOTH HOUSES OF CONGRESS HAVE PASSED LEGISLATION
AUTHORIZING A U.S. CONTRIBUTION OF \$2.4 BILLION TO IDA V.
HOUSE AND SENATE CONFEREES HAVE MET AND RESOLVED DIFFER-
ENCES IN THE TWO BILLS. IT IS EXPECTED THAT BOTH HOUSES
WILL ACT ON THE CONFERENCE REPORT BEFORE END OF JULY.
CONTROVERSY IN THE HOUSE OF REPRESENTATIVES OVER THE HUMAN
RIGHTS PROVISION COULD, HOWEVER, DELAY FINAL PASSAGE.

APPROPRIATIONS LEGISLATION

2. THE HOUSE PASSED THE FY 1978 FOREIGN ASSISTANCE APPROPRIATIONS BILL IN LATE JUNE. BILL AS PASSED BY HOUSE PROVIDES \$950 MILLION FOR IDA, BUT CONTAINS RESTRICTIVE AMENDMENTS WHICH WOULD PROHIBIT THE USE OF THESE FUNDS IN SELECTED COUNTRIES AND FOR SELECTED COMMODITY PROJECTS. SUCH EARMARKING WOULD NOT ALLOW IDA TO ACCEPT THE U.S. CONTRIBUTION. LETTER FROM WORLD BANK PRESIDENT MCNAMARA

TO SECRETARY BLUMENTHAL SETTING OUT THIS POSITION FOLLOWS
PARA. 7. SENATE APPROPRIATIONS COMMITTEE DELETED THESE RESTRICTIVE AMENDMENTS, BUT THE BILL HAS NOT YET COME TO THE SENATE FLOOR. WHILE THE ADMINISTRATION IS STRONGLY OPPOSING ANY EARMARKING RESTRICTIONS, THERE IS A STRONG POSSIBILITY THAT THE SAME AMENDMENTS MAY BE OFFERED DURING SENATE FLOOR ACTION.

STATUS OF IDA V

3. BECAUSE OF THESE LEGISLATIVE UNCERTAINTIES, THE U.S. GOVERNMENT IS UNWILLING, ALTHOUGH IT HAS LEGAL AUTHORITY TO DO SO, TO CAST ITS VOTE FOR THE IDA V RESOLUTION UNTIL LIMITED OFFICIAL USE

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IT IS CLEAR WE WILL NOT HAVE RESTRICTIVE AMENDMENTS THAT WOULD FORCE IDA TO REFUSE OUR CONTRIBUTION. IN ADDITION, TO DO SO NOW, IN THE MIDST OF PRESENT UNCERTAINTIES AND CONFUSION MIGHT CAUSE SOME MEMBERS OF CONGRESS TO MISCONSTRUE OUR VOTE AS SIGNIFYING INTENT OF ADMINISTRATION TO ACT BEFORE CONGRESS HAS APPROVED U.S. PARTICIPATION.

4. SECRETARY BLUMENTHAL EXPECTS TO VOTE IMMEDIATELY AFTER APPROPRIATIONS BILL IS PASSED. THIS COULD HAPPEN BEFORE CONGRESS RECESSES AUGUST 5. OUTSIDE POSSIBILITY THAT NO ACTION WILL BE TAKEN UNTIL CONGRESS RETURNS ON SEPT. 7.

5. SINCE TIME FOR VOTE ON IDA V RESOLUTION EXPIRES JULY 29, 1977, IBRD MANAGEMENT IS PROPOSING AN EXTENSION TO SEPT. 30.

6. PLEASE EXPLAIN THIS POSITION TO MINISTRY OF FINANCE SINCE JAPAN'S ACTION ON IDA V, WHICH IS ESSENTIAL TO BRINGING BRIDGING ARRANGEMENT INTO EFFECT, HAS BEEN AWAITING U.S. GOVERNORS' VOTE.

7. TEXT OF MCNAMARA/BLUMENTHAL LETTER FOLLOWS:

DEAR MR. SECRETARY:

PRESIDENT CARTER, BY LETTER DATED JUNE 21, 1977, WROTE TO CONGRESSMAN THOMAS P. O'NEILL, SPEAKER OF THE HOUSE OF REPRESENTATIVES, REGARDING THE PENDING APPROPRIATIONS BILL FOR THE INTERNATIONAL DEVELOPMENT INSTITUTIONS; IN THAT LETTER HE STATED THAT SPECIFYING IN THE BILL THAT UNITED STATES FUNDS COULD NOT BE USED FOR LOANS TO CERTAIN COUNTRIES WOULD IN ALL PROBABILITY MAKE IT IMPOSSIBLE FOR THESE INSTITUTIONS TO ACCEPT THE UNITED STATES FUNDS. AFTER DETERMINATION BY THE WORLD BANK'S LEGAL COUNSEL, I WRITE TO COMMENT ON PRESIDENT CARTER'S STATEMENT AND ON SEVERAL RELATED MATTERS.

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AS YOU KNOW, THERE IS NOW PENDING BEFORE THE CONGRESS BOTH AUTHORIZING AND APPROPRIATIONS LEGISLATION COVERING THE COMMITMENT BY THE UNITED STATES TO THE FIFTH REPLENISHMENT OF IDA AND THE SUBSCRIPTIONS BY THE UNITED STATES TO THE CAPITAL STOCK OF THE BANK AND INTERNATIONAL FINANCE CORPORATION. I WOULD LIKE TO REFER, IN PARTICULAR, TO SECTIONS 107 AND 509 OF THE HOUSE FOREIGN AID APPROPRIATIONS BILL (H.R. 7797); AS I UNDERSTAND IT, IF THESE PROVISIONS BECOME LAW THE UNITED STATES WOULD HAVE TO CONDITION ITS COMMITMENT AND ITS SUBSCRIPTIONS ON A REQUIREMENT THAT THESE FUNDS NOT BE USED TO FINANCE LOANS TO CERTAIN COUNTRIES OR FOR CERTAIN AGRICULTURAL COMMODITIES. THE QUESTION ARISES, THEREFORE, WHETHER IDA COULD ACCEPT A UNITED STATES COMMITMENT TO THE FIFTH REPLENISHMENT AND THE BANK AND IFC COULD ACCEPT UNITED STATES SUBSCRIPTIONS TO THEIR CAPITAL STOCK IF THEY WERE MADE SUBJECT TO SUCH CONDITIONS OR OTHERS OF SIMILAR EFFECT.

THE ANSWER IS THAT IDA, THE BANK AND IFC COULD NOT ACCEPT THE FUNDS, SO CONDITIONED, FOR THE FOLLOWING REASONS.

AS FAR AS THE FIFTH REPLENISHMENT OF IDA IS CONCERNED, IT WILL BE RECALLED THAT THE AGREEMENT ON THE TERMS OF THE FIFTH REPLENISHMENT PROVIDES FOR A TOTAL REPLENISHMENT OF THE EQUIVALENT OF \$7.637 BILLION TO BE CONTRIBUTED BY 26 DONOR COUNTRIES OF WHICH THE UNITED STATES SHARE WOULD BE \$2.4 BILLION. THE REPLENISHMENT CANNOT BECOME EFFECTIVE UNTIL DONOR COUNTRIES FORMALLY COMMIT THEMSELVES TO MAKE CONTRIBUTIONS TOTALLING AT LEAST \$6 BILLION (PART OF WHICH CAN BE MADE SUBJECT TO APPROPRIATIONS) AND CONSEQUENTLY THE CONTRIBUTIONS OF OTHER DONOR COUNTRIES ARE NOT PAYABLE UNLESS THE UNITED STATES ALSO FORMALLY

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COMMITTS ITSELF TO MAKE ITS CONTRIBUTION. THE FIFTH RE-
PLENISHMENT AGREEMENT DOES NOT PERMIT ANY DONOR COUNTRY
TO MAKE ITS CONTRIBUTION SUBJECT TO A CONDITION THAT THE
FUNDS CANNOT BE USED FOR LOANS TO CERTAIN COUNTRIES OR
FOR CERTAIN AGRICULTURAL COMMODITIES. THUS, IF THE
UNITED STATES IS OBLIGED SO TO CONDITION THE USE OF ITS
FUNDS, THE FIFTH REPLENISHMENT AGREEMENT CANNOT BECOME
EFFECTIVE. THE EFFECT OF THIS WOULD BE THAT IDA WOULD
NOT BE ABLE TO CONTINUE OPERATIONS SINCE IDA'S RESOURCES
WERE FULLY COMMITTED BY JUNE 30TH. IDA IS THE PRIME
INSTITUTION FOR DEVELOPMENT ASSISTANCE TO THE VERY POOR
AND I KNOW THAT I NEED NOT POINT OUT TO YOU THE SERIOUS
EFFECT A CESSATION OF IDA'S ACTIVITIES WOULD HAVE ON
THE DEVELOPING COUNTRIES.

AS FAR AS UNITED STATES SUBSCRIPTIONS TO BANK AND IFC
CAPITAL STOCK ARE CONCERNED, WHILE THE TECHNICAL PROBLEMS

INVOLVED ARE DIFFERENT THAN IN THE CASE OF THE FIFTH RE-
PLENISHMENT TO IDA, THE CONCLUSION IS THE SAME. ANY SUB-
SCRIPTION WHICH IS MADE SUBJECT TO THE CONDITIONS REFERRED
TO ABOVE WOULD NOT BE CONSISTENT WITH THE TERMS ON WHICH
SUBSCRIPTIONS CAN BE MADE OR WITH THE OBLIGATIONS OF
SHAREHOLDERS TO THE BANK UNDER THE ARTICLES OF AGREEMENT
AND WOULD THEREFORE NOT BE ACCEPTABLE. THE USE OF FUNDS
PAID BY SHAREHOLDERS FOR THEIR STOCK CANNOT BE CONDITIONED
IN THAT WAY AND, SIMILARLY, NO CONDITION CAN BE IMPOSED
WHICH WOULD RESTRICT THE POWER OF THE BANK TO MAKE CALLS
ON THE CALLABLE PORTION OF BANK STOCK SO AS TO ENABLE THE
BANK, IF NECESSARY, TO MAKE PAYMENT ON ITS BORROWINGS OR
GUARANTEES.

IN SUMMARY, I BELIEVE THAT THE RESTRICTIVE CONDITIONS NOW
BEING CONSIDERED BY THE UNITED STATES CONGRESS WOULD, IF
ENACTED, RESULT IN MOST GRAVE CONSEQUENCES TO THE FUTURE
OF THE WORLD BANK GROUP.

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SINCERELY,

ROBERT S. MCNAMARA VANCE

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Message Attributes

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Sent Date: 27-Jul-1977 12:00:00 am
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Disposition Approved on Date:
Disposition Case Number: n/a
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Disposition History: n/a
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